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# EDITED TRANSCRIPT

ANTM.N - Q2 2021 Anthem Inc Earnings and Outlook Call

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**OVERVIEW:**

Co. reported 2Q21 operating revenue of $33.3b and GAAP EPS of $7.25. Expects 2021 adjusted EPS to be greater than $25.50.



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## PRESENTATION

**Operator**

Thank you for standing by, and welcome to Anthem's Second Quarter Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the conference over to the company's management. Please go ahead.

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**Stephen Vartan Tanal** *- Anthem, Inc. - VP of IR*

Good morning, and welcome to Anthem's Second Quarter 2021 Earnings Call. This is Steve Tanal, Vice President of Investor Relations. And with us this morning on the call are Gail Boudreaux, President and CEO; John Gallina, our CFO; Peter Haytaian, President of our Commercial & Specialty Business Division; Felicia Norwood, President of our Government Business Division; and Jeff Alter, President of our Pharmacy and Health Solutions businesses.



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Gail will begin the call with a brief discussion of the quarter, recent progress against our strategic initiatives and close on Anthem's commitment to its mission. John will then discuss our financial results and outlook in greater detail. After our prepared remarks, the team will be available for Q&A.

During the call, we will reference certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website, antheminc.com.

We will also be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Anthem. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to carefully review the risk factors discussed in today's press release and in our quarterly filings with the SEC.

I will now turn the call over to Gail.

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Good morning, and thank you for joining us today for Anthem's Second Quarter 2021 Earnings Call. This morning, we reported second quarter GAAP earnings per share of $7.25 and adjusted earnings per share of $7.03, ahead of our expectations despite ongoing uncertainties associated with the COVID-19 pandemic. I'm pleased to report that we continue to deliver on our commitments to our stakeholders while making considerable progress against our long-term strategy to transform our organization from a health benefits company to a lifetime trusted partner in health. This transformation is fueled by the continued expansion of our digital platform, which improves connections across the health care system while leveraging the industry's largest data sets to drive actionable insights in pursuit of better health.

In the second quarter, Anthem produced strong membership growth, won significant new contracts in our Government Business and continued to integrate and expand our digital platform. On the membership front, we ended the second quarter with 44.3 million members, up 1.9 million or 4.4% year-over-year; and 820,000 new members since the end of the first quarter, reflecting the strategic acquisition of Puerto Rico's leading Medicare Advantage organization, MMM, as well as strong organic growth in our core benefits businesses.

MMM is the largest Medicare Advantage plan in Puerto Rico and operates the only 4.5 star-rated plan in the territory and is also the second-largest Medicaid health plan. Through its integrated care delivery model, MMM has established a strong track record of delivering quality care for seniors and dual eligibles with complex and chronic needs.

Medicare Advantage remains a key area of focus for our organization, and we continue to see an immense opportunity to grow and optimize this business. Just last week, we were awarded a major contract to serve the retirees of the City of New York in partnership with Emblem Health in what was one of the largest public procurements for group Medicare in the last decade.

This opportunity builds on our more than 50-year relationship serving New York City's workers, retirees and their families and will significantly increase Anthem's group Medicare Advantage business as well as our Medicare Advantage market share in New York. We're honored to have been selected to make a material difference in the lives of New Yorkers who worked hard to serve the city.

In addition to MMM, we also closed on the acquisition of myNEXUS during the second quarter, advancing our strategy to grow and deepen Anthem's capabilities in Medicare Advantage. myNEXUS is a digitally enabled organization that optimizes home health for more than 2 million Medicare Advantage members across 20 states, including more than 900,000 existing Anthem Medicare Advantage members.

myNEXUS improves outcomes by facilitating timely, personalized care for our members in the comfort of their homes, leading to improved continuity of care and reduced hospital admissions, readmissions and ER visits. In addition to supporting future growth in Medicare Advantage, myNEXUS furthers our diversified business group strategy to deliver on its risk contracts through the expansion of home-based care.



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Our Medicaid business is also performing very well and continues to build upon our deep local alliances and investments in population health, digital tools and local solutions to help address the social drivers of health in our communities. We extended our strong RFP track record in the quarter, securing an award to continue serving consumers in the state of Nevada. This follows our recent award in Ohio. These wins build on the momentum we have coming off a fantastic start to the launch of North Carolina, which went live at the beginning of this month.

Our Healthy Blue plan has already become the largest Medicaid managed care plan by membership in North Carolina and the leading choice for consumers. Of beneficiaries who chose their plan, nearly 50% selected Healthy Blue, underscoring the power of our alliance partnerships and the Blue brand.

In our Commercial business, together with IngenioRx, we continue to innovate while demonstrating the power of true integration. By deploying machine learning and automation across our comprehensive ecosystem of medical, pharmacy, lab and social drivers of health data, Anthem and IngenioRx are improving outcomes.

Across these businesses, we're leveraging our proprietary predictive modeling algorithm to apply rich and analytic solutions that allow us to tailor our integrated medical and pharmacy offerings to each member population. This enables us to deliver the right solutions to improve health based on individualized needs. We extend this customized approach to our Specialty products, which we are increasingly selling in bundles through Anthem's Whole Health Connection, a differentiator in the marketplace.

This traction gives us confidence in the long-term targets we articulated for our Commercial business at our recent Analyst Day, including narrowing the profit gap between our fee- and risk-based Commercial business by serving more of our fee-based members in more ways. The success we are seeing in our core business validates our commitment to continue to invest in building our digital platform for health.

The essence of the platform is that what we own matters less than what we can connect, and we are seeing great success in making connections through consumer- and provider-facing tools. While we are still in the early innings, our efforts to simplify the health care experience while creating a more connected and powerful platform are clearly resonating with consumers, providers and employers.

For example, over 30% of members registered for Sydney Health are actively using the platform. In the second quarter, we continue to expand access to Sydney across multiple Medicaid markets and saw a fivefold increase in engagement compared to our legacy digital tools for Medicaid.

In the Commercial markets, 32 national accounts have purchased Sydney, preferred for its superior end-to-end experience and enhanced functionality, like our Find Care feature, which provides members seeking surgical treatments a personalized omnichannel experience, including price transparency, tailored physician and facility recommendations and access to telephonic health coaches to guide them through the process.

Digital is also playing a key role in deepening our value-based care penetration and provider enablement by improving connectivity and real-time access to meaningful actionable data. We continue to invest in building enhanced data connections to enable deeper collaboration at scale via our Health OS provider platform.

Health OS connects siloed health data in disparate technologies to drive deeper insights and reduce costs and complexity. More than 100,000 value-based care physicians and 13,000 value-based care coordinators are connected to Health OS today. This connection allows technology partners and providers to plug into Health OS and gain data-driven insights as part of their existing workflow.

In May, we announced a new partnership with Epic that will allow secure, bidirectional exchange of health information, paving the way to better leverage data-driven insights into care decisions. Epic is a significant enabler of many of our efforts to improve our HEDIS and Star scores. We have nearly 150 provider systems on our glide path through the end of 2022 and are in discussions with other health care information companies for similar partnerships.

All of these efforts align to Anthem's purpose, to improve the health of humanity. Our community health strategy supports our purpose by addressing the health-related social needs of our associates, members and communities through data and evidence-based interventions that promote health equity. Our commitment to living this purpose has earned recognition that I'm particularly proud of.



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For example, Anthem was recently named one of the top 100 U.S. companies supporting healthy communities and families by JUST Capital, the leading platform for measuring and improving corporate performance in the stakeholder economy. We are the leader in our industry, ranking #1 among health care providers and #14 overall on the list. In addition, Points of Light, the world's largest organization dedicated to volunteer service, recently recognized Anthem as 1 of the 50 most community-minded companies in America for 2021.

As we reflect on our achievements this quarter and our broader mission, we're cognizant that fundamentally improving the health of humanity takes partnerships, aligned incentives and connections across people, care providers, researchers, data scientists, communities and others dedicated to improving health. Anthem is making these connections through our digital platform for health while following the data and embracing our unique assets to drive positive change in ways that only Anthem can. We have deep local roots in our communities and the industry's largest data sets, both of which position us uniquely well to deliver against our mission.

I'll now turn the call over to John to discuss our financial performance and outlook in greater detail. John?

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**John Edward Gallina** - *Anthem, Inc. - Executive VP & CFO*

Thank you, Gail, and good morning to everyone on the line. Earlier this morning, we reported second quarter results that included GAAP earnings per share of $7.25 and adjusted earnings per share of $7.03, another strong quarter in which we delivered on our financial commitments while reinvesting in each of our businesses, all while navigating the ongoing COVID-19 pandemic.

Second quarter results again underscore the balance and resilience of our enterprise. We ended the quarter with 44.3 million members, growth of 1.9 million lives year-over-year or 4.4%, including growth of 820,000 in the second quarter alone. Excluding the acquisition of MMM, we grew organically by 232,000 members in the quarter driven by growth in our Medicaid and Commercial fully insured businesses, partially offset by continued in-group attrition in our large group and national fee-based accounts, in line with our expectations and prior guidance.

Second quarter operating revenue of $33.3 billion grew 14% over the prior year quarter. On a HIF-adjusted basis, our top line grew nearly 16% with no impact from MMM, which closed at the end of the quarter. Growth was driven by higher premium revenue in Medicaid and Medicare associated with strong membership growth in addition to rate increases to cover cost inflation. Pharmacy product revenue also contributed to our top line growth as IngenioRx grew affiliated and unaffiliated revenue with a value proposition that continues to resonate in the marketplace.

The medical loss ratio for the second quarter was 86.8%, an increase of 890 basis points as compared to the prior year quarter, driven by an increase in non-COVID utilization from depressed levels a year ago and, to a lesser extent, the repeal of the health insurance tax in 2021. Relative to our expectations, total medical costs were favorable, driven by non-COVID costs developing favorably, partially offset by somewhat higher-than-expected cost for COVID-related care. Please note that while total benefit costs were favorable to our expectations, total cost ended the quarter slightly above our estimate of a normalized level.

Our second quarter SG&A expense ratio came in at 11.5%, a decrease of 240 basis points year-over-year. Excluding the effect of the repeal of the HIF, our SG&A ratio decreased 110 basis points, driven by leverage on strong revenue growth, partially offset by ongoing investments in support of our growth and our evolution to become a digital-first enterprise.

Turning to our balance sheet. We ended the second quarter with a debt-to-capital ratio of 40.9%, down sequentially from 41.6% in the first quarter. The decrease was due to the early repayment of debt at par originally scheduled to mature in August of this year and an increase in equity driven by our strong bottom line performance in the quarter. We continue to expect our debt-to-capital ratio to end the year slightly below 40%.

During the quarter, we repurchased approximately 1.3 million shares of our common stock at a weighted average price of $380.59 for $480 million. We have now repurchased close to 60% of our full year outlook of $1.6 billion, which is still an appropriate figure for modeling purposes.

We maintained a prudent posture with respect to reserves through the second quarter, ending the period with 48.1 days in claims payable, an increase of 1.2 days compared with the first quarter and 2.1 days year-over-year. MMM and myNEXUS, both of which closed during the quarter,



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increased our June 30 claims payable balances with minimal impact on the average day of claims, resulting in the DCP calculation increasing by 1.6 days. Excluding these acquisitions, days in claims payable was largely consistent with the last quarter, decreasing by just 0.4 days.

Given the continued uncertainty associated with COVID, we continue to take a prudent posture in establishing reserves. And as a result, our second quarter earnings did not benefit from the favorable prior-period development.

Operating cash flow was $1.7 billion or 0.9x net income in the second quarter. The year-on-year decline was driven by the deferral of normal tax payments out of the second quarter of last year into the back half as was permitted by the IRS. On a year-to-date basis, cash flow was $4.2 billion or 1.2x net income.

Given our solid performance in the first half, we are increasing our guidance for full year operating cash flow to greater than $5.8 billion. As a reminder, our operating cash flow is depressed this year due to the timing of certain payments as well as the settlement of the Blue Cross and Blue Shield multi-district litigation scheduled for the fourth quarter.

Turning to our earnings outlook for the year. We are raising our guidance for the full year adjusted earnings per share to greater than $25.50 from the greater than $25.10, which squarely puts us at the midpoint of our long-term annual adjusted earnings per share growth target of 12% to 15%.

There are a number of moving pieces associated with our revised guidance, which includes a portion of the upside we generated in the second quarter. The underlying fundamentals of our core business remains strong, evidenced by our first half results.

Given strong year-to-date performance on medical costs, we now expect our full year medical loss ratio to end in the lower half of our full year guidance of 88%, plus or minus 50 basis points. Given accelerated reinvestment in our business in the first half of the year and start-up costs for new contracts in the back half, we now expect full year SG&A ratio to end the year in the upper half of our prior guidance range of 10.8%, plus or minus 50 basis points.

We have also increased our outlook for investment income for the year given strong performance in our alternative investment portfolio in the first 2 quarters, which we have not carried forward in our guidance. The outperformance in this nonoperating line item is more than entirely offset by a higher effective tax rate in our full year guidance.

In the context of our upwardly revised guidance, we now expect to absorb earnings dilution in the second half associated with the start-up cost for the award of the City of New York group Medicare Advantage contract and our entry into the Ohio Medicaid program, both of which will go live in 2022.

We have also taken a slightly more cautious view of the back half of the year in light of new COVID variants, coupled with a slowing vaccination rate, a combination that could result in the potential for higher COVID-related costs.

Our guidance also includes a partial year of MMM and myNEXUS, both of which are expected to contribute much more meaningfully to our financial results in 2022 and beyond. As noted in our press release, we now expect to generate approximately $137 billion of operating revenue in 2021 and to end the year with 44.8 million to 45.3 million members.

Finally, while it is premature to comment quantitatively on 2022, we want to remind you that group Medicare Advantage contracts and large Medicaid wins are generally dilutive in the first full year of operations. We have a strong line of sight towards a compelling ROI on our recent new business wins. And over the 7-year term of our new group Medicare Advantage contract with the City of New York, our expected returns are well in excess of our cost of capital. Additionally, with these 2 wins, our percent of membership and revenues from our Government Business division will become an even larger percentage of our totals.

In closing, we were pleased to deliver another quarter of solid growth while reinvesting in our enterprise. We continue to grow inward in our services businesses and outward in all of our segments, each of which remains well positioned for growth. Our mix continues to evolve towards



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our strategic areas of focus: Medicare Advantage in the Government Business, in addition to our service segments. We have entered the second half with strong underlying fundamentals, solid momentum and a prudently positioned balance sheet.

And with that, operator, please open up the call to questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) For our first question, we'll go to the line of Lance Wilkes from Bernstein.

**Lance Arthur Wilkes** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes. Could you talk a little bit about utilization you saw during the quarter in both Government and Commercial lines? And any trends you're seeing with July and, in particular, maybe any distinction between COVID and non-COVID and how you think the delta variant might impact that?

**John Edward Gallina** - *Anthem, Inc. - Executive VP & CFO*

Lance, thank you for the question. This is John. So in terms of the utilization of the second quarter, the overall utilization was slightly above normalized levels but slightly less than our expectation. So in total for the company, we exceeded baseline, albeit that we were better than what we had projected.

When you really think about it on a line of business by line of business basis, Medicaid had the highest level of deferred utilization. And then certainly, they had some COVID costs. And so Medicaid was below baseline.

Commercial was slightly above baseline all-in. And Medicare Advantage was actually slightly above baseline all-in once you take into account all the other issues associated with the risk score revenues and the additional payments that we're still making on the 3.75% rate increases that existed. So all very much consistent with what we thought 90 days ago, just a little bit better.

And as you look at July, we really don't provide mid-quarter guidance, per se. But we're obviously monitoring our pre-auth and precertification data. And as a reminder, as I just said in the prepared comments, we do expect both the third quarter and the fourth quarter to be above baseline each quarter for the rest of the year. So based on everything we've seen so far, July is tracking very consistent with those expectations. So thank you, Lance.

**Operator**

Next, we'll go to the line of Justin Lake from Wolfe Research.

**Justin Lake** - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

A couple of questions on the Government side. One, can you give us an update on how much membership you've gotten from -- you think you've gotten from redeterminations being delayed? And then how do you think about that kind of rolling off as you look ahead to 2022 and beyond?

And then you talked about this big Medicare Advantage contract from the City of New York. Would be helpful to know -- I was just looking on the Internet. It looks like it might be a couple of hundred thousand members. Is that a ballpark estimate there for 2022 on what you might pick up?



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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Great. Well, thanks for the questions, Justin. We'll try to tick them off. I'll start first on the City of New York and then ask Felicia to share some of her insights on the Medicaid business in particular.

Thanks again for the question because, first, we're really honored to have been awarded the contract with the City of New York and continue serving these members in the state as we execute on our strategy. This is really, I think, a great proof point for Anthem that we shared with everyone at our Investor Day about our goal to get deeper in each of the sites we serve. This contract gives us that opportunity in a very important state. And it also, I think, is a proof point for our goal to convert our existing clients to group Medicare Advantage. So 2 really strong, I think, proof points for the strategy that we've been talking about over the last several years.

I think a little bit of background would be helpful on the City of New York. We have served them for more than 50 years. And we've actually been their medical management vendor over the past 5 years. So if you think about that, it's really given us a really good, strong understanding of the members and their health needs. So it was really, for us, a great opportunity to provide them sort of the strategic offering in group MA.

As I mentioned in my prepared remarks that generally, these contracts are dilutive in the first full year of operations. The back half of the year, we're going to incur start-up costs and with no offsetting revenues. So as we get ready to go live in January of '22 and -- we're absorbing that in the guidance that we've given you. And as we've noted in the past, contracts of this size tend to be dilutive as the members transition to group MA.

I think the good news is, obviously, as the medical management vendor, we have some insight into these members. But we also need to collect the data to reflect the member's acuity and risk scores and ramp up other medical management initiatives, particularly our value-based care provider relationships and obviously working with our partner, Emblem.

In terms of overall membership, at this time, it's a little bit early to call, but we believe it will be over 200,000 lives. There's going to be some variability in that because there is a choice and open enrollment to buy up and do different things. But we think, clearly, it will be over the 200,000 lives. And as we think about 2022, the guidance and what that means, we'll share that later in this year. We're a little early and ahead of that. We'll address that at the end of the year.

But again, I'll just close on this section that as a 7-year contract, we think that it's really positive for us overall. And it really gives us breadth and depth in the market. And beginning in '23, we expect it to have a positive impact to our earnings and a really strong and compelling ROI.

So with that, I'm going to ask Felicia to address the second part of your question, I guess, which was about Medicaid and a reverification.

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**Felicia Farr Norwood** - *Anthem, Inc. - Executive VP & President of Government Business Division*

Justin, our Medicaid enrollment ended the second quarter at about 9.7 million members. That was up 582,000 when you include MMM. So just in terms of our organic growth, 267,000 increase in terms of our Medicaid membership compared to the first quarter of 2021.

When you take a look at it all-in, the increase is certainly predominantly due to the continued suspension of reverifications. And we had a couple of small tuck-in acquisitions in our Florida market as well. As you know, our guidance assumes that reverifications remain on hold through the end of 2021. And with the renewed public health emergency from the Biden administration on yesterday, we still feel very good about that time line.

With that said, we continue to work very closely with our state partners and our members, helping them understand reverifications, what it means. And we're going to continue to stay close to that as we look to the end of the year. Thank you.

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**Operator**

Next, we'll go to the line of A.J. Rice from Crédit Suisse.



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**Albert J. William Rice** - *Crédit Suisse AG, Research Division - Research Analyst*

Maybe ask about Ingenio, it looked like it was one of the bright spots in the quarter. Is there any update you can provide as to script trends? I know COVID vaccines as well as just the return of acute scripts seems to be helping. I wondered if you saw that. And any comment you could give us on the PBM selling season? I know you were targeting some of your customers that you have ASO business with, long-standing relationships. Any movement there that you've seen?

**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Well, thanks, A.J. I'm going to ask Jeff Alter to comment on your questions, but thank you. We felt very strongly about our Ingenio results. And I think Jeff can share with you some of what's happening inside of the business. Jeff?

**Jeffrey Donald Alter** - *Anthem, Inc. - EVP of IngenioRx & Anthem Health Solutions*

A.J., yes, so we -- it was a strong quarter. Thanks for noticing that. We believe our integrated story is beginning to take hold in the marketplace. And then the work that we do to make sure that our partners with inside our Anthem businesses as well as some of our external partners are getting the best course of treatment at the lowest possible drug cost.

And so as we see that continuing to resonate in the market, we are enjoying a nice trajectory on our earnings as well as our growth in script volume and membership. So it's -- we're in the middle of the selling season. That value story is resonating. We particularly see it an advantage inside the labor and trust segment and the mid-market of our Commercial business and, again, continue to be strong support for our government Businesses, Medicaid and Medicare. Thanks for the question.

**Operator**

Next, we'll go to the line of Rob Cottrell from Cleveland Research.

**Robert Sohngen Cottrell** - *Cleveland Research Company - Research Associate*

I wanted to see if you could help quantify what you're thinking the expected COVID kind of all-in number will be this year relative to the previous 600 million expectation?

**John Edward Gallina** - *Anthem, Inc. - Executive VP & CFO*

Thank you, Rob. So as you noted, the prior guidance was a $600 million headwind. And there's certainly a lot of moving parts behind that estimate. Year-to-date, COVID cost did come in slightly better than expected. Non-COVID cost tracking -- I'm sorry, COVID came in slightly higher than expected with non-COVID tracking slightly better than expected. So all-in costs are a bit favorable to our outlook in the first half. But there's still a considerable amount of uncertainty surrounding COVID in the back half of the year. And so we obviously want to maintain a prudent, if not cautious, posture with respect to our guidance.

So in that context, we believe that the net headwind of $600 million is still appropriate, with the majority of that in the back half of the year. And that's an all-in type of an estimate. That includes the impact on our risk scores, the additional fee schedules, the COVID cost, the increase in vaccination, administrative cost all-in. So at this point in time, we think $600 million is a reasonable estimate to stay with. Thank you for the question.



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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Yes. Thanks, John. The only thing I'd add is, as you know, that's very similar and consistent to what we've guided through throughout the year.

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**Operator**

Next, we'll go to the line of Lisa Gill from JPMorgan.

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**Lisa Christine Gill** - *JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst*

Gail, you mentioned several times today digital as well as virtual care initiative. Can you maybe just give us a little more color as we think about virtual care and utilization of virtual care? And ultimately, how do you see that impacting your medical cost trend?

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Well, thanks for the question, Lisa. I think a couple of things there embedded in that. We are -- as I shared with you in the opening comments, particularly around our Health OS platform, we're really building an integrated platform where we can drive data. So I'll address virtual care in a minute, but I think it's all connected.

We're starting with really our deep data insights. And we're connecting that with our care provider network, trying to give them the best information across every point in time. And then we're using that to enable our value-based care provider.

So I think the core of what we're sharing is that virtual is a component of it. And you saw not only virtual but also at-home care. We believe that our ability to get to the commitment we made at Investor Day around getting our trend to CPI is really about the -- I guess I'd say the combination of all of these things. So starting again with enabling our value-based providers, providing data at real time and connecting that to consumers through our Sydney platform.

So we accelerated a lot of those initiatives over the past year, particularly in the second quarter. You heard the proof point that we just shared about our Medicaid because we think there's opportunities there as well to accelerate the engagement of our consumers. But fundamentally, this is really about getting our value-based payment and our providers enabled with the data so that they can make the right decisions, take greater risk. And we do see that as a critical element of getting to CPI, trend at CPI over the next several years.

So I think they all come together. And again, virtual care is just part of, I think, the continuum of care, including at-home care that we're offering our providers as part of the mix of how they best serve patients where they need to be at the right time.

So thanks for the question. I think it's a core element of our strategy. But it's quite comprehensive. It's not only about the digital platform. It's really about value-based care. It's about connecting of care providers with consumers and then enabling the providers to actually get more involved and take more risk along the way and feel confident that they can manage those patients. So thanks again.

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**Operator**

Next, we'll go to the line of Steven Valiquette from Barclays.

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**Steven James Valiquette** - *Barclays Bank PLC, Research Division - Research Analyst*

Yes. Just a quick question on membership. So in the prepared remarks, you talked about Commercial & Specialty enrollment decreasing by 174,000 lives, mainly on the fee-based side just as a result of the economic environment. I know at a high level, unemployment is still trending favorably as 2021 progresses. And now there's also some noise around the furlough impact on payrolls. I guess I was just curious to hear more from you guys just on -- color just around the mechanics of the economic environment leading to that sequentially lower membership and how that sort of plays out for the rest of the year.

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Well, thanks. We'll have Pete address that as part of the Commercial outlook.

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**Peter David Haytaian** - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Steve. No, thanks for the question. And as you alluded to, I mean, enrollment in membership in the quarter really came in as we expected. And again, as you suggested, the themes haven't really fundamentally changed.

First of all, I do want to note how proud I am of the team in terms of our performance and execution. As you saw in the print, we have good year-to-date growth over 100,000 members year-to-date. Our sales again exceeded our lapses in our local market business. Really strong performance on the fully insured side, where we saw sequential growth in the individual small and local large group business. So that was very good in terms of what we can control and execute against.

As it relates to your question on the economy, yes, I mean, that's where we continue to see a headwind, on our fee-based business and in group changes that continue to put some pressure on us. We are beginning to see things open up a bit. The pipe had been light in the fee-based business over the last year. But we are beginning to see that pipe open up as it relates to Q3 and Q4 and then headed into 2022.

We have some good visibility as it relates to 2022 on the national side of our business. So we are feeling good about where that stands right now. In terms of the growth headed into 2022, it's still a little bit early. We're sort of at the middle to the end of that selling season. But I do feel strongly that based upon the execution of our team, the tools and capabilities we're using, our engagement with the broker community, our focus on affordability that as the economy continues to improve, you will begin to see that membership come back in the back half of the year into 2022.

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Thanks, Pete. I just want to reiterate a couple of points that Pete made because I think they're really important. One is just our ability to sell more than our lapses. I mean we've really been consistent over the last 1.5 years plus. And I think a lot of that goes back to our tools, our products. We've done a lot of work on our sales effectiveness, and that's really resonating in the marketplace, our focus on whole health.

And so again, while Pete share that attrition still in our fee-based business is something that we're closely watching, we're really pleased with the growth in our risk-based business. We've taken a very consistent approach, and we've done well in the markets. And again, it's all about our depth trying to continue to get -- keep being deep in those markets and strong national account showing as well this year. And we're very optimistic about our pipeline. So thanks for that question.

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**Operator**

Next, we'll go to the line of Scott Fidel from Stephens.

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**Scott J. Fidel** - *Stephens Inc., Research Division - MD & Analyst*

Just interested, just -- I know you're not ready to talk specifically about 2022. But just, first, in terms of the proper jumping-off point to think about as we're modeling, would the increased guidance range for EPS be the right number? Or are you still thinking about where the prior EPS was in terms of the jumping-off point?

And then clearly, significant 2 contracts that you've got here with New York City group MA and Ohio Medicaid. And just thinking if there's a way to potentially just ring-fence how you're thinking about initial dilution in 2022 on that just as we try to sort of model properly thinking about 2022 growth rates?

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**John Edward Gallina** - *Anthem, Inc. - Executive VP & CFO*

Thank you, Scott, for the question. And I completely agree with the very first comment you made. It's premature to talk about 2022 at this point in time. However, related to the specificity, our new guidance is $25.50, which does reflect that $0.40 raise. And we're really very, very happy with the core operating performance of the company really improving throughout the quarter and throughout the year.

I think what I could say, though, without providing any specifics for 2022 is that the core fundamentals of our business do remain solid. We're very confident in our ability to deliver 12% to 15% annual EPS growth over the long term. However, having said that, there will be dilution in -- for these big contracts in 2022. It's too early to actually declare that. As Gail said, we still don't even know the exact number of members that we have in the City of New York. And we need to do a lot more work on that. And so as we get closer to 2022, we'll be in a position to provide additional clarity on our expectations.

The only other comment I will make is that we are incurring various start-up costs and setup costs here in the second half of '21. And we have already included that cost structure in our thought process and in our guidance for the year. But thank you for the question.

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**Operator**

Next, we'll go to the line of David Windley from Jefferies.

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**David Howard Windley** - *Jefferies LLC, Research Division - MD & Equity Analyst*

If I look back balance sheet-wise to the beginning of the pandemic, your DCP, depending on the kind of the starting time frame, looks like it's increased anywhere from like 7 to 10 days. I'm wondering, do you expect that over the long term, DCP will come back down to the high 30s where it was prepandemic? And what visibility would you need to see that happen? And then if I could slip in, since nobody else has asked, where are you in your analysis of Aduhelm and your thoughts around coverage of Aduhelm.

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**John Edward Gallina** - *Anthem, Inc. - Executive VP & CFO*

So thank you. I'll start with the first question. And then I think Gail would like to address the Aduhelm. But in terms of the days in claims payable, it was essentially flat quarter-over-quarter, as you said, up either 7 or 10 days, depending on your starting point.

Really a ton of uncertainty associated with this environment. And we have to record reserves consistent with the actuarial standards. And we need to ensure that our methodologies and calculations are very consistent and, as I said, that they meet generally accepted accounting principles.

Having said that, there's a lot of uncertainties and a lot of unknowns that have existed each and every quarter, each and every month during this entire pandemic. And so we've tried to be extremely prudent and conservative in our approach. And I would expect to have that to continue until there's a little bit more line of sight into the future. I would say that over time -- and over time is a long period of time. It could be a few years. But over time, I would expect our DCPs to go back down.



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Now there's a lot of other things that impact our days in claims payable as well. We've talked a lot about our investment in digital. But that investment in digital also includes better auto adjudication rates, cleaner claim submissions from providers to us. And as that is done better and better and faster and faster, that automatically would reduce the days in claims payable without impacting the income statement by $0.01. It would just be better throughput. And actually, the improvement would be our administrative cost structure could go down simultaneously.

So there's a lot of variables with DCP. And I would really carry out every one to say do not just look at a number and then think that there's a P&L impact because you also have rate collars and corridors that impact it, et cetera, et cetera. But really, the short answer to your question is, yes, we do expect it to go down over time as we get a little bit more clarity into the current environment. But thank you for the question.

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Thank you. In terms of your second question, I want to address that because Anthem does recognize that there has been really little hope or choice for the treatment of Alzheimer's disease. Quite frankly, it's a heartbreaking disease for patients, their families, their friends and caregivers. We've been monitoring the development of the drug for over a year. We're closely watching the FDA guidance and all available evidence as it continues to change.

And as new information becomes available, we're going to continue to evaluate it with our clinical experts. We've advanced them the FDA guidance and recommendation from others. So it's all really, I think, times to the relevant evidence that will become available. We really do appreciate the patience as we conduct this due diligence and ensure that it really is the most clinically appropriate use of drugs and therapies for our members. So thank you for the question.

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**Operator**

Next, we'll go to the line of Ralph Giacobbe from Citi.

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**Ralph Giacobbe** - *Citigroup Inc. Exchange Research - Research Analyst*

I guess, first, I just wanted to clarify the commentary and maybe I misheard it, but it sounded like better medical cost performance. But John, I think you said, "But overall, our total cost was higher than expectations." So I just wanted to clarify that.

And then going back to Scott's question. It sounds like you don't want to really sort of quantify the dilution for '22, but it sounds like there's start-up cost this year. So can you help at all in terms of the magnitude of that in terms of what you're absorbing this year for start-up costs around those contracts?

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**John Edward Gallina** - *Anthem, Inc. - Executive VP & CFO*

Ralph, thank you for the question. And I appreciate you asking me to clarify because if anyone wasn't clear, then I do want to take this opportunity.

Our total costs for the second quarter were better than our expectations. Simultaneously, our total costs for the second quarter were above baseline or a normalized level given the absence of COVID. So maybe that's where the clarification is necessary. So we're above baseline for the quarter but better than overall expectations. And that's one of the reasons our medical loss ratio is at the very low end of the guidance range as well.

And then associated with the City of New York start-up cost, the Ohio start-up cost, we're really not going to go through a specificity of dollars at this point in time. As you say, there's a lot of moving parts in our 2021 guidance. We do have -- we closed on MMM and myNEXUS, which certainly includes from financing cost, deal cost and integration cost on -- for those entities, we have the start-up cost for New York GRS as well as Ohio. We've taken all of that into consideration. And it's all been thought through in terms of our $25.50 guidance. So thank you for the question.



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**Operator**

Next, we'll go to the line of Stephen Baxter from Wells Fargo.

**Stephen C. Baxter** - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

I wanted to ask one on Medicare Advantage. I just wanted to ask about your current expectations for risk adjustment revenue in 2021 and then get a sense of how the company is feeling about revenue recovery for 2022. And then as we think about MMM, is there anything we should be keeping in mind here about any dynamics they might have versus the rest of your portfolio?

**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Felicia?

**Felicia Farr Norwood** - *Anthem, Inc. - Executive VP & President of Government Business Division*

Thank you for that question. We've engaged in significant outreach this year with our members, really checking in to see how they were doing, helping to address health-related social need, making sure that they were getting vaccines and that they're able to see their doctors and access care, especially to close gaps in care that were lingering from 2020.

This includes home visits and telehealth, really meeting members where they are and how they feel most comfortable engaging with their care providers. Based on our analytics, we feel very good about where we are and believe that we are on track to have our members' health risks reflected in our 2020 payments at levels that are similar to 2019.

And in terms of the CMS midyear payment, I wanted to make sure that we've received that, and it's certainly in line with our expectations. So we feel good about where we are around risk scores, collecting the data, making sure that we are having coding accuracy appropriately. And as I said before, the 2022 payments will be similar to what they were in 2019. I just want to make sure I corrected that. Thank you.

**Operator**

Next, we'll go to the line of Matt Borsch from BMO Capital Markets.

**Matthew Richard Borsch** - *BMO Capital Markets Equity Research - Research Analyst*

If I could just ask about -- a little bit more about the utilization pattern. So in Medicare Advantage in the second quarter, you made reference to the impact to the risk score issues. But was the utilization, the elective procedures and so forth, was that above your sort of normal baseline, if I understood you correctly?

**John Edward Gallina** - *Anthem, Inc. - Executive VP & CFO*

Yes. Thanks, Matt. Maybe I can help answer that question. So in the second quarter, we saw that the inpatient was still below baseline. ER utilization is still short of baseline. However, doctors' visits and outpatient were a bit above. And part of that was at our encouragement. We're trying to encourage our members to seek health care when they need it, obtain their checkups and their annual visits and various things like that.

And as you know, more often that the seniors go in to see the docs, the better opportunity there is for us to collect data and information on them to help maximize the risk score revenues. So part of our strategy was consistent with that to ensure that our members actually sought and got the



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care they needed. And we're seeing that. So yes, we did see outpatient and doctor's visits above baseline for the quarter. And we're actually pretty happy about that because we think that's a good thing in the long term. So hopefully, that helps.

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Yes. And I'd just like to add to John's comment because remember, we've been forecasting that we expected this to be above our normalized level and, again, particularly in Medicare where you have a highly vaccinated population. We looked at what happened in 2020. Again, we're encouraging them with house visits to come into the doctors, immunizations, preventative care, et cetera. So that's an important part of it.

And again, as we've shared, while we're projecting the back half of the year to be above baseline, again, been very with consistent that. We don't see a surge coming just because of some of the utilization constraints within the system. But again, we're very prudent about what's going to happen with the delta variant. And that's all been part of the guidance that we gave you. So hopefully, that helps clarify.

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**Operator**

Next, we'll go to the line of Joshua Raskin from Nephron Research.

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**Joshua Richard Raskin** - *Nephron Research LLC - Research Analyst*

So my question is on the commercial employer preferences as we move into 2022. And I'm curious if you're seeing any impacts from COVID on sort of employer group preference around benefit design and work from home. Any sort of things that are popping up in terms of new ask? And then I guess the other would be any impact on your goal to increase that number of products that you sell into individual or specific customer groups?

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**Peter David Haytaian** - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes. Thanks for the question, Josh. We continue to see what we spoke about at Investor Day, a real focus on affordability, on ease of use. And that's really been -- also on behavioral health and advocacy. Those have really been -- that has been the focus over the last several months, especially coming out of COVID, as you'd expect. And with a greater focus on behavioral health and the needs associated with behavioral health and the importance of being able to navigate the system and the complexity of the system and what we talk about around advocacy has really become critically important.

And we are selling that value proposition into the marketplace. We're beginning to see that really resonate. As I alluded to before in talking about our national business, which, again, we're about in the seventh inning of that selling season, those are the themes that we're selling through. And we're really seeing it resonate. We're seeing new account wins come through. And then importantly and what I'm really encouraged by is our existing employer accounts are also growing and for the reasons that we stated, that we were really being sensitized to these issues around COVID and need for advocacy, affordability and focus on issues like behavioral health.

In addition to that, you had mentioned digital and some of the things that we had previously talked about that and the digitization of our business. And yes, that is also a focus. Again, looking back to what Gail said earlier about really leveraging digital in a much greater way, both as it relates to navigating our product portfolio but then, importantly, as it relates to our members and our providers and having data in the hands of providers at the point of care is really an important point that is also resonating and something that we're trying to sell to.

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Thanks, Pete. And I guess the only thing I'd add -- and Pete did a really good job of describing everything. I'll point to sort of the 2 proof points. One is the Sydney Care sales that we've been seeing, particularly in the largest end, which usually are the first movers. And it's been all about



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integration. And we've done really well with our Total Health, Total You, which is really focused on, again, integration and overall between behavioral, pharmacy, everything.

So overall, I think those are, again, the themes that as Pete laid out -- the major things that are happening in the space. So thanks for the question.

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**Operator**

Next, we'll go to the line of Kevin Fischbeck from Bank of America.

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**Kevin Mark Fischbeck** - *BofA Securities, Research Division - MD in Equity Research*

All right. Great. 8 I just wanted to follow up on the commercial commentary. I guess we've been hearing this from a couple of other companies as well that commercial utilization is coming in a little bit above baseline. Just trying to figure out whether you could parse that out as far as core utilization versus COVID utilization. And whether there's any kind of implications for pricing for next year, and whether you're able to kind of really parse out whether there's an actual trend issue or whether it's simply timing or COVID costs?

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**Peter David Haytaian** - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes. Thanks, Kevin. Well, I'll just address the pricing issue head on. And we've said this before, we are going to stay disciplined with respect to pricing, and we're going to price to forward trend. We said this in 2020. We did that, and we're seeing that come through in 2021 and feel good about our pricing as it relates to what we did in 2020.

Yes, you're right, there are a lot of moving pieces and parts. We do have a sophisticated model. We're tracking this stuff. Weekly, we talk about this. And we take really all the COVID and non-COVID impacts into consideration for pricing purposes.

So everything that you mentioned, whether or not -- what are vaccination rates looking like, the population in terms of who's receiving vaccine, the upticks in potential variants, non-COVID electives, core utilization, et cetera, all that is being taken into consideration. If you look at some of our public filings, like in the individual business, you will see that we are pricing in for these COVID impacts.

I would say there's variation by geography and there's variation by product line. So there is complexity to it, but I think we're being very prudent. And again, we're going to price the forward trend and be disciplined about pricing going forward.

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**Operator**

Next, we'll go to the line of Ricky Goldwasser from Morgan Stanley.

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**Rivka Regina Goldwasser** - *Morgan Stanley, Research Division - MD*

Yes. Two questions here. One on the MMM acquisition. Can you quantify for us the impact or the benefit for the second half of '21? And then, Gail, in your prepared remarks, you talked about myNEXUS, about 900,000 of Anthem MA members on it. How long will it take to deploy it across your entire MA book? What's the limiting factor there? And can you maybe quantify for us what would be the impact on medical cost?

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**John Edward Gallina** - *Anthem, Inc. - Executive VP & CFO*

Thank you, Ricky, for those questions. First of all, I'll address the MMM. Partial year results for MMM, when you look at it in our consolidated numbers, certainly weighed down by financing costs, integration costs. Also, Puerto Rico has a higher tax rate on average than the rest of the U.S.



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And so all those things have been taken into consideration. And really, there's not a lot of accretion associated with that for 2021. It's really -- we expect it to be much more meaningful in terms of its contribution in 2022.

So as I had stated in the prior question, there's a lot of moving parts for the back half of '21 and a lot of integration and implementation cost. They've all been factored into our $25.50 guidance already.

With that, I'll turn it back to Gail.

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Yes. Thanks. In terms of your question on myNEXUS, thank you. myNEXUS, as I shared, is really one of the critical elements of our strategy, both inside of Anthem and outside of Anthem. So you think about 2 million lives served, 900,000 inside of Anthem. We've deployed it pretty extensively, but there is more opportunity. We're working through our integration plans. Clearly, as we grow and some of the new opportunities, we see this as a critical opportunity for us to get care in the home and also have a digital integration. So I think that's really important.

But also it's part of our diversified business group strategy to sell to others, our Blue strategy and other clients that we work with extensively. So I see it both the opportunity to grow inside of Anthem. And that's something -- we know them well. We really like the capabilities. Obviously, we use 900,000 -- we have them against 900,000 members. So we see more opportunity there across our businesses, including our duals. And then secondarily, we think there's a really significant opportunity to grow that business outside of Anthem as well. So this one hits kind of both parts of our strategy.

In terms of our cost of care, going to the home, virtual value-based care, all of those are critical elements of our cost of care strategy. And so again, having a strong in-home offering, I think, is a really important part, particularly for the senior population. So we see this as having an important part of that piece of it.

So thanks for the question. I think it's, for us, an important building block and an important piece of our overall strategy.

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**Operator**

For the last question, we'll go to the line of George Hill from Deutsche Bank.

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**George Robert Hill** - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

I guess as it relates to Medicare Advantage and partnerships, you guys have relationships with agilon and other kind of provider-based organizations. I guess can you talk about the appetite to expand and grow those partnerships as a way to contain costs and ensure visibility? And what -- and as you roll out those partnerships and cover lives faster, can you talk about how that impacts how you run the MA business as you have better cost visibility?

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

Well, thanks for the question. I'll start and then I'll ask Jeff Alter to provide a little more context. I mean part of our strategy there is, again, as we think of our value-based relationships, working with dense providers in markets that we want to go much deeper in, in Medicare Advantage, we want to have stronger enablement for them to move up the risk order.

And so we've picked partners that we think can help us do that. Again, we are -- our goal is to be extremely deep in the markets we serve. And so we see the capabilities there as really strong and also aligned, again, with the data that we shared, our Health OS platform.



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So part of the partnership is not just to do a contracting relationship, but it truly is to integrate with our data, our systems connected to our consumer-facing capabilities and then have the capabilities that we've built, whether it's myNEXUS or other things, help support them in hitting their overall cost goal.

So I think it's an important piece and component of our value-based strategy. And we see, again, our opportunity to get deeper and grow with these partners is actually a really compelling value proposition for that. So Jeff, I don't know if you want to make any additional comments about that?

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**Jeffrey Donald Alter** - *Anthem, Inc. - EVP of IngenioRx & Anthem Health Solutions*

Yes. Maybe I'll just add that we believe it is the best way to effectively build a strong value-based network for our Medicare partners and have the ability to bring that data into the agilons and the Privias and the S3s of the world and then have them distribute that down into their network so that we do this in a 1:1 to 1-to-many as opposed to Anthem having to connect to thousands of smaller primary care practices. This enables our strategy in a much more efficient and expeditious way.

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**Gail Koziara Boudreaux** - *Anthem, Inc. - President, CEO & Director*

So thank you for that question. And I'd like to thank all of you for joining us for this morning's call. As you can see, Anthem has shown solid growth throughout this pandemic while we continue to provide critical support and resources to our communities as we combat the pandemic together. Our performance in the second quarter gives us confidence in our ability to capitalize on future growth prospects and deliver on our commitments to all of our stakeholders.

Our success would not be possible, however, without the hard work and dedication of our more than 87,000 associates who truly exemplify our mission, vision and values. And I want to thank each and every one of them for everything they do each and every day.

Thank you all your for interest as well as in Anthem. And I look forward to speaking with you in the future.

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**Operator**

Ladies and gentlemen, a recording of this conference will be available for replay after 11 a.m. today through August 20, 2021. You may access the replay system at any time by dialing (800) 813-5529, and international participants can dial (203) 369-3826.

This concludes our conference for today. Thank you for your participation and for using Verizon Conferencing. You may now disconnect.

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